

SCHEDULE A

DRAFT ANNUAL BUDGET AND SUPPORTING DOCUMENTATION OF DIHLABENG LOCAL MUNICIPALITY

DRAFT ANNUAL BUDGET OF DIHLABENG LOCAL MUNICIPALITY

2015/16 TO 2017/18 MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Abbreviations and Acronyms

AMR	Automated Meter Reading	MFMA	Municipal Financial Management Act Programme
ASGISA	Accelerated and Shared Growth Initiative	MIG	Municipal Infrastructure Grant
BPC	Budget Planning Committee	MMC	Member of Mayoral Committee
CBD	Central Business District	MPRA	Municipal Properties Rates Act
CFO	Chief Financial Officer	MSA	Municipal Systems Act
CPI	Consumer Price Index	MTEF	Medium-term Expenditure Framework
CRRF	Capital Replacement Reserve Fund	MTREF	Medium-term Revenue and Expenditure Framework
DoRA	Division of Revenue Act	NERSA	National Electricity Regulator South Africa
EE	Employment Equity	NGO	Non-Governmental organisations
EEDSM	Energy Efficiency Demand Side Management	NKPIs	National Key Performance Indicators
EM	Executive Mayor	OHS	Occupational Health and Safety
FBS	Free basic services	OP	Operational Plan
GAMAP	Generally Accepted Municipal Accounting Practice	PBO	Public Benefit Organisations
GDP	Gross domestic product	PHC	Provincial Health Care
GFS	Government Financial Statistics	PMS	Performance Management System
GRAP	General Recognised Accounting Practice	PPE	Property Plant and Equipment
HR	Human Resources	PPP	Public Private Partnership
HSRC	Human Science Research Council	PTIS	Public Transport Infrastructure System
IDP	Integrated Development Strategy	RG	Restructuring Grant
IT	Information Technology	RSC	Regional Services Council
kℓ	kilolitre	SALGA	South African Local Government Association
km	kilometre	SAPS	South African Police Service
KPA	Key Performance Area	SDBIP	Service Delivery Budget Implementation Plan
KPI	Key Performance Indicator	SMME	Small Micro and Medium Enterprises
kWh	kilowatt		
ℓ	litre		
LED	Local Economic Development		
MEC	Member of the Executive Committee		

Part 1 – Annual Budget

1.1 Mayor's Report

FINANCIAL PERFORMANCE PRIOR YEAR

The municipality has managed to maintain unqualified audit opinion for the year 203/14 which was firstly obtained in 2011/12 after suffering from Disclaimers from 2002/3 until 2008/9. The national target was 2014 and we achieved this two years earlier. The ability of the municipality to achieve this feat has given the community the assurance that their funds are properly accounted for and thereby increasing not only community confidence but also investor confidence.

Although we achieved an unqualified audit opinion, the financial performance of the municipality had a tremendous turn. In the 2012/13 the municipality made a deficit of R 79 million and in the 2013/14 financial year the deficit was increased to R 97 million, this translates to a turnaround of approximately R 18 million. The deficit of R 82 million is as a result of the provision for bad debts made in the 2014/15 financial year of R 120 million. Therefore if the consumers all paid their accounts the municipality would have had a surplus of R 120 million, which could be invested in improving the lives of our community. The payment of accounts remains a serious challenge and more focus still need to be placed on this section of our municipality.

The above statement clearly indicates that the municipality has a shortfall of R 120 million to meet its obligations, and this means that it will not be able to service its creditors. Eskom is one example that can be mentioned amongst other. Total creditors list of the municipality is R 100 million of which R 56 million is owed to Eskom. This poses a serious concern to our clients and community at large. The council has adopted a payment plan to ensure that debt is serviced with a reasonable period.

2015/2016 ANNUAL BUDGET

This budget reflects our commitments needs towards change and development for the betterment of the lives of all the people within or community. It also reflects continuity and conscience intention of our municipality to take head-on challenges of poverty, unemployment and inequality.

Honourable speaker our draft annual budget for 2015/2016 is R 645 million increasing from R 607 million due to increased provision for bad debts and depreciation during adjustment budget.

We managed to increase our revenue despite the fact that the equitable share; which equates to 19% of our total revenue, was slightly decreased. Currently grants account for 19% of the municipal revenue, a decrease of 3% from the 2014/5 financial year. This indicates that we are in the process of becoming self-sufficient and less reliant on

grants for our daily operating activities is what we are projecting in the future. The stagnant equitable share indicates that we need to focus more on the correct billing to our consumers as well as the collection of those accounts that we have been billed.

One of the biggest increases in own revenue is sale of electricity to R 156 million from R138 million in the previous financial year and assessment rates which increased from R84 million to R91 million, and sale of water that increased from R 71 million to R76 million.

We have managed to maintain our salary budget of 29% in the 2014/15 and 30% in 2015/16 budgets, an acceptable norm is between 30 and 35%. This type of discipline is necessary to ensure the financial stability of the municipality going forward.

The Councillors remuneration will not be subsidised through the equitable share allocation in the 2015/16 financial year. An amount of R 7.5 million has been included for the special support for Councillors remuneration and ward committees.

The repairs and maintenance budget has not increased since the 2013/14 budget. Repairs and maintenance comprises 3% of our total budget which is below the norm of 9%. Additional effort needs to be placed on increasing this percentage and thereby ensuring that our assets are properly maintained.

The general expenditure, which includes bulk purchases, insurance, rental of plant, security costs, fuel cost, training, etc., has decreased by 7%. It is essential that we ensure that our overheads remain as low as possible and thereby ensuring financial sustainability.

We have also managed to increase the contribution for depreciation by 1% from R 74 million projected in the 2014/15 budget to R 75 million in the 2015/16 budget year. This contributes towards the budget becoming more funded and cash backed. The municipality budgeted for an 86% payment rate whilst the current rate achieved is approximately 80%. This is a clear indication that our already scarce resources needs to be put into the collection of our debt and ensure that consumer accounts are paid timeously. We have profiled our debtors so that the debtor balances and payment rates can be managed per ward. The debtors have also been broken down per suburb; this allows us to focus more strategically when coming to the collection of our debt.

The municipality has employed resources internally to collect our debt and the fruit thereof is starting to show. Another strategic decision that the Council is taking is to abolish that practice of allowing property owners to open tenant accounts and thereby placing the burden on the municipality to collect their tenant's consumer accounts on their behalf. By taking this decision we will reduce the accounts on our system from approximately 50 thousand to 30 thousand. This will free up our officials to focus more on collection from the remaining 30 thousand debtors.

Total capital budget for 2015/2016 is R 83 million of which R2.6 million will be funded internally and included in the total expenditure of R644 million.

The sources of funding for the R 83 million capital budget is:

Internal contributions	= R 2.6 million
MIG	= R 37 million
Department of water affairs	= R 38 million
Electrical	= R 5 million

The capital budget for the next two financial years is:

2015/16	= R 75 million
2016/17	= R 78 million

The MIG funding for the 2015/16 will be reduced to R 37 million and increase to R39 million in the 2016/17 financial year and to R 41 million in the 2017/18 financial year. This is an indication that the municipality needs to gear itself towards generating funds independently to fund its unlimited needs for capital development and growth. The internal capital expenditure has been decreased by 64% from R 7.3 million to R 2.6 million, this is not in line with the statement that we must strive to become self-sustainable with regards to the capital development in our area. This then links back to the emphasis on debt collection.

Our EPWP grant for 2014/2015 is R1 Million which can be increased in the next financial year depending on the number of job opportunities created.

In the 2013/14 financial year the municipality adopted a local economic development strategy to plot the way forward with regards to our municipality's economic development. No budget has been set aside for the local economic development projects in this financial year due to difficult financial position.

We also call upon all indigent households to register, and those who have registered to come forward to update their status in our register in order for them to qualify from the municipal indigent subsidy scheme. Registration of indigent household also helps the municipality to know exactly how many households are able to pay for services and how many cannot afford to pay for services due to their economic status. In 2015/16 financial year we plan to register over 6000 indigent households.

1.2 Council Resolutions

On 31 March 2015 the Council of Dihlabeng Local Municipality Local met in the New Hall (i.e. Boiketlong Hall of Bohlokong) to consider the draft annual budget of the municipality for the financial year 2015/16. The Council approved and adopted the following resolutions:

1. The Council of Dihlabeng Local Municipality , acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

- 1.1. The annual budget of the municipality for the financial year 2015/16 and the multi-year and single-year capital appropriations as set out in the following tables:
 - 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in **Table A2**;
 - 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in **Table A3**;
 - 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type) as contained in **Table A4**; and
 - 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in **Table A5**.
- 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
 - 1.2.1. Budgeted Financial Position as contained in **Table A6**;
 - 1.2.2. Budgeted Cash Flows as contained in **Table A7**;
 - 1.2.3. Cash backed reserves and accumulated surplus reconciliation as contained in **Table A8**;
 - 1.2.4. Asset management as contained in **Table A9**; and
 - 1.2.5. Basic service delivery measurement as contained in **Table A10**
2. The Council of Dihlabeng Local Municipality Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2015:
 - 2.1. the tariffs for property rates – 7%
 - 2.2. the tariffs for electricity – 12.69%
 - 2.3. the tariffs for the supply of water – 7%
 - 2.4. the tariffs for sanitation services – 7%
 - 2.5. the tariffs for solid waste services – 7%
 - 2.6. Sundry tariffs (other services) - 10%

1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically, efficiently and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

The municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the municipality has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 70 were used to guide the compilation of the 2015/16 MTREF.

The main challenges experienced during the compilation of the 2015/16 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Sustainable job creation
- Funding for implementation of National Development Plan.
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable;
- Affordability of capital projects – original allocations had to be reduced.
- Securing inclusive growth-investing in strategic infrastructure programmes

In view of the aforementioned, the following table is a consolidated overview of the proposed 2015/16 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2015/16 MTREF

	Original Budget	Budget Year	Budget year +1	Budget Year + 2
R thousand	2014/15	2015/16	2016/17	2017/18
Total Operating Revenue	604 286	644 937	678 608	711 273
Total Operating Expenditure	604 317	644 937	677 107	710 893
<i>(surplus) deficit</i>	(31 240)	0	1 500 898	289 458
Total Capital Expenditure	73 370	81 728	75 027	77 927

Total operating revenue has grown by 6 per cent for the 2015/16 financial year when compared to the 2014/15 Budget. For the two outer years, operational revenue will increase by 6 per cent respectively, equating to a total revenue growth of R 33 million over the MTREF when compared to the 2015/16 financial year.

Total operating expenditure for the 2015/16 financial year has been appropriated at R 644 937 million and translates into a budgeted surplus of R 2.6 million which will be used for internal capital projects as identified by council. When compared to the 2013/14 Budget, operational expenditure has decreased by 7 per cent in the 2015/16 budget and by 6 per cent for each of the respective outer years of the MTREF. The operating deficit for the two outer years is decreasing at a moderate percentages which to the municipality not being able to fund internal projects. If the situation is not controlled we will not be able used to fund capital projects internally in future.

The 2015/16 capital budget from national government and internally generated funds has increased slightly when compared to the 2014/15 Budget of R 75 million. The capital budget will decrease to R 75 million and increase to R 80 million respectively for the outer years.

Operating Revenue Framework

For Dihlabeng Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 86 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2015/16 MTREF (classified by main revenue source):

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand										
Revenue By Source										
Property rates	67 323	67 316	76 851	83 151	83 151	84 868	84 868	90 809	96 711	102 998
Property rates - penalties & collection charges	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	129 197	151 055	157 909	164 983	164 983	175 382	175 382	197 638	210 484	224 166
Service charges - water revenue	44 654	44 801	65 077	64 291	64 291	71 459	71 459	76 461	81 431	86 724
Service charges - sanitation revenue	35 899	38 026	41 631	44 905	44 905	44 670	44 670	47 797	50 904	54 213
Service charges - refuse revenue	34 368	37 248	39 734	42 142	42 142	42 145	42 145	45 096	48 027	51 149
Service charges - other	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment	2 953	3 556	4 055	5 355	5 355	3 592	3 592	3 951	4 208	4 481
Interest earned - external investments	9	11	11	10	10	-	-	-	-	-
Interest earned - outstanding debtors	19 858	23 061	27 014	26 661	26 661	32 280	32 280	35 509	37 817	40 275
Dividends received	-	5	6	-	-	-	-	-	-	-
Fines	641	7 195	5 060	11 890	11 890	8 509	8 509	9 360	9 968	10 616
Licences and permits	28	86	201	289	289	61	61	67	71	76
Agency services	-	-	-	-	-	-	-	-	-	-
Transfers recognised - operational	117 091	133 006	133 996	134 970	134 970	135 889	135 889	128 095	128 172	125 058
Other revenue	5 539	10 871	11 448	21 169	21 169	8 323	8 323	9 155	9 751	10 384
Gains on disposal of PPE	-	-	-	3 180	3 180	-	-	1 000	1 065	1 134
Total Revenue (excluding capital transfers and contributions)	457 560	516 238	562 992	602 996	602 996	607 178	607 178	644 937	678 609	711 273

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the municipality. Rates and service charge revenues comprise of 74 per cent of total revenue. In the 2014/15 financial year, revenue from rates and services charges totalled R 420 million. A significant amount of this revenue is derived from sale of electricity (i.e. R155 Million). A notable trend is the increase in the total revenue generated from rates and services charges, this is mainly attributed by rapid increases in the Eskom tariffs for bulk electricity. Electricity comprise of 31.per cent of the total revenue. Property rates is the second largest revenue source totalling 14 per cent of total revenue by 2015/16 financial year.

Operating grants and transfers totals R132 million in the 2014/15 financial year and steadily decreases to R127 million by 2015/16. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts

Description R thousand	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
RECEIPTS:									
Operating Transfers and Grants									
National Government:	117 091	133 006	133 996	134 970	134 970	134 970	136 466	133 513	130 945
Local Government Equitable Share	114 851	129 367	129 734	131 369	131 369	131 369	125 216	121 929	121 212
Municipal Systems Improvement	740	800	890	934	934	934	930	957	1 033
Finance Management	1 500	1 500	1 550	1 600	1 600	1 600	1 600	1 627	1 700
Water Services Operating Subsidy	-	-	-	-	-	-	2 720	4 000	5 000
EPWP Incentive	-	1 000	1 000	1 067	1 067	1 067	1 000	-	-
Electricity Demand Side Management							5 000	5 000	2 000
Library grant		339	822						

The percentage increases of Eskom bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the municipality has undertaken the tariff setting process relating to service charges as follows.

1.3.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009. The implementation of these

regulations was done in the previous budget process and the Property Rates Policy of the municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R7 000 reduction on the market value of a property will be granted in terms of The Municipality's own Property Rates Policy;
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
- For pensioners a total rebate of 25 per cent will be granted to owners of rate-able property:
 - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;
 - The applicant must be the owner of only one property;
 - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension; and
 - The property must be categorized as residential.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2015/16 financial year based on a 6 per cent increase from 1 July 2014 is contained below:

Table 2 Comparison of proposed rates to levied for the 2015/16 financial year

Category	Current Tariff (1 July 2014)	Proposed tariff (from 1 July 2015)
	c	C
Residential properties	0.6812	0.7629
State owned properties	2.0358	2.1783
Business & Commercial	2.0358	2.1783
Agricultural	0.1060	0.1134
Vacant land	0.6811	0.7288
Industrial	2.0358	2.1783

1.3.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of 7 per cent from 1 July 2015 for water is proposed. 6 kℓ water per month period will be granted free of charge to registered indigents. Residents who are not registered as indigents will not qualify for free 6 kℓ per month, but they will pay it at a discounted rate (5.10). A summary of the proposed tariffs for households (residential) and non-residential are as follows:

Table 3 Proposed Water Tariffs

CATEGORY	CURRENT TARIFFS 2014/15	PROPOSED TARIFFS 2015/16
	Rand per kℓ	Rand per kℓ
RESIDENTIAL		
(i) 0 to 6 kℓ per 30-day period	4.77	5.10
(ii) 7 to 10 kℓ per 30-day period	7.62	8.15
(iii) 11 to 15 kℓ per 30-day period	10.12	10.83
(iv) 16 to 20 kℓ per 30-day period	11.40	12.20
(v) 21 to 30 kℓ per 30-day period	11.79	12.62
(vi) More than 31 kℓ per 30-day period:	12.19	13.04
NON-RESIDENTIAL		
(i) 0 and more kℓ	8.33	8.91

The following table shows the impact of the proposed increases in water tariffs on the water charges for a single dwelling-house:

Table 4 Comparison between current water charges and increases (Domestic)

Monthly consumption kℓ	Current amount payable R	Proposed amount payable R	Difference (Increase) R	Percentage change
20	166.70	178.37	11.67	7%
30	284.55	304.47	19.92	7%
40	406.45	434.90	28.45	7%
50	528.35	565.33	36.98	7%
80	894.05	956.63	62.59	7%
100	1 137.85	1 217.50	79.65	7%

1.3.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 14.24 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2015.

Considering the Eskom increases, the consumer tariff had to be increased by 12.68 per cent to offset the additional bulk purchase cost from 1 July 2015. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per month free of charge.

The following table shows the impact of the proposed increases in electricity tariffs on the water charges for domestic customers:

Table 5 Comparison between current electricity charges and increases (Domestic)

Monthly consumption kWh	Current amount Payable R	Proposed amount Payable R	Difference (Increase) R	Percentage change
100	227.41	256.26	28.85	12.68%
250	368.34	415.06	46.72	12.68%
500	643.78	725.41	81.63	12.68%
750	996.45	1122.80	126.35	12.68%
1 000	1 366.84	1540.15	173.31	12.68%
2 000	2 846.78	3207.75	360.97	12.68%

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2011. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor).

1.3.4 Sanitation and Impact of Tariff Increases

A tariff increase of 7 per cent for sanitation from 1 July 2014 is approved. This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes approximately 20 per cent of waste water treatment input costs, therefore they higher than CPI increase of 6.2 per cent for sanitation tariffs.

The following table compares the current and proposed tariffs:

Table 6 Comparison between current sanitation charges and increases

CATEGORY	CURRENT TARIFF 2013/14	PROPOSED TARIFF 2015/16
Per toilet	95.35	102.03

1.3.5 Waste Removal and Impact of Tariff Increases

A 7 per cent increase in the waste removal tariff is proposed from 1 July 2015.

The following table compares current and approved amounts payable from 1 July 2015:

Table 7 Comparison between current waste removal fees and increases

	CURRENT TARIFFS 2014/15	PROPOSED TARIFFS 2015/16
Domestic and churches	134.03	143.41
Business x 2 per week	226.99	242.88
Business x 3 per week	308.94	330.57
Mass container removal	771.27	825.26

1.3.6 Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Table 8 MBRR Table SA14 – Household bills

Description	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework			
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16 6 % incr.	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Rand/cent										
<u>Monthly Account for Household - 'Middle Income Range'</u>										
Rates and services charges:										
Property rates	411,96	436,68	467,25	495,28	495,28	495,28	7,0%	529,95	561,75	595,45
Electricity:	102,47	108,61	116,22	124,81	124,81	124,81	12,7%	140,64	154,71	170,18
Basic levy										
Electricity:	984,37	1 043,43	1 116,47	1 198,98	1 198,98	1 198,98	12,7%	1 351,13	1 486,24	1 634,87
Consumption										

Water: Basic levy	-	-	-	-	-	-	-	-	-	-
Water: Consumption	186,73	197,93	235,47	249,60	249,60	249,60	-	267,07	283,09	300,08
Sanitation Refuse removal	139,15	147,50	157,83	167,30	167,30	167,30	7,0%	179,01	189,75	201,13
Other	97,79	103,66	110,91	117,57	117,57	117,57	7,0%	125,80	133,34	141,34
sub-total	1 922,47	2 037,81	2 204,14	2 353,53	2 353,53	2 353,53	10,2%	2 593,60	2 808,88	3 043,06
VAT on Services	211,47	224,16	243,17	260,15	260,15	260,15		288,91	314,60	342,66
Total large household bill:	2 133,94	2 261,97	2 447,31	2 613,68	2 613,68	2 613,68	10,3%	2 882,51	3 123,48	3 385,72
% increase/-decrease		6,0%	8,2%	6,8%	-	-		10,3%	8,4%	8,4%
Monthly Account for Household - 'Affordable Range' Rates and services charges:										
Property rates	14,74	15,62	16,72	17,72	17,72	17,72	7,0%	18,96	20,10	21,30
Electricity: Basic levy	-	-	-	-	-	-	12,7%	-	-	-
Electricity: Consumption	-	-	-	-	-	-	12,7%	-	-	-
Water: Basic levy	-	-	-	-	-	-	-	-	-	-
Water: Consumption	100,74	106,79	137,94	146,22	146,22	146,22	7,0%	156,46	165,84	175,80
Sanitation Refuse removal	69,58	73,75	78,91	83,65	83,65	83,65	7,0%	89,50	94,87	100,57
Other	97,79	103,66	110,91	117,57	117,57	117,57	7,0%	125,80	133,34	141,34
sub-total	282,84	299,81	344,48	365,15	365,15	365,15	7,0%	390,71	414,16	439,01
VAT on Services	37,53	39,79	45,89	48,64	48,64	48,64		52,05	55,17	58,48
Total small household bill:	320,38	339,60	390,37	413,79	413,79	413,79	7,0%	442,76	469,33	497,49
% increase/-decrease		6,0%	15,0%	6,0%	-	-		7,0%	6,0%	6,0%
			1,49	-0,60	-1,00	-				
Monthly Account for Household - 'Indigent' Household receiving free basic services Rates and services charges:										
Property rates	14,74	15,62	16,72	17,72	17,72	17,72	7,0%	18,96	20,10	21,30
Electricity: Basic levy	-	-	-	-	-	-	12,7%	-	-	-
Electricity: Consumption	-	-	-	-	-	-	12,7%	-	-	-
Water: Basic	-	-	-	-	-	-		-	-	-

levy										
Water: Consumption	–	–	23,68	25,11	25,11	25,11	–	26,86	28,47	30,18
Sanitation Refuse removal	69,58	73,75	78,91	83,65	83,65	83,65	7,0%	89,50	94,87	100,57
Other	97,79	103,66	110,91	117,57	117,57	117,57	7,0%	125,80	133,34	141,34
sub-total	182,10	193,03	230,22	244,04	244,04	244,04	7,0%	261,12	276,79	293,39
VAT on Services	23,43	24,84	29,89	31,68	31,68	31,68		33,90	35,94	38,09
Total small household bill: % increase/-decrease	205,53	217,86	260,11	275,72	275,72	275,72	7,0%	295,02	312,72	331,49
		6,0%	19,4%	6,0%	–	–		7,0%	6,0%	6,0%

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to between 6 and 7 per cent, with the increase for indigent households closer to 6 per cent.

1.4 Operating Expenditure Framework

The Municipality's expenditure framework for the 2015/16 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.
- The following table is a high level summary of the 2015/16 budget and MTREF (classified per main type of operating expenditure):

Table 9 Summary of operating expenditure by standard classification item

Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<u>Expenditure By Type</u> Employee related costs	142 829	159 638	172 725	176 074	176 074	171 669	171 669	181 626	190 707	200 243

Remuneration of councillors	12 888	12 183	12 739	12 429	12 429	12 059	12 059	12 759	13 397	14 067
Debt impairment	85 709	86 051	107 163	16 275	16 275	120 000	120 000	94 284	98 998	103 948
Depreciation & asset impairment	67 454	71 181	67 657	74 590	74 590	74 590	74 590	75 336	79 103	83 058
Finance charges	6 219	10 791	14 606	10 433	10 433	16 631	16 631	14 606	15 337	16 103
Bulk purchases	83 154	108 908	115 933	126 540	126 540	127 398	127 398	144 559	151 787	159 376
Other materials	17 724	22 498	16 203	22 819	22 819	30 145	30 145	21 102	22 157	23 264
Contracted services	2 533	2 008	2 588	32 604	32 604	30 590	30 590	10 400	10 920	11 466
Transfers and grants	–	–	–	–	–	–	–	–	–	–
Other expenditure	84 931	136 923	129 080	131 232	131 232	113 476	113 476	90 265	91 947	96 565
Loss on disposal of PPE	–	–	–	–	–	–	–	–	–	–
Total Expenditure	503 441	610 182	638 693	602 996	602 996	696 558	696 558	644 937	674 353	708 091

The budgeted allocation for employee related costs for the 2015/16 financial year totals R194 million, which equals 30 per cent of the total operating expenditure. Salary increases have been factored into this budget at a percentage increase of 5.8 per cent for the 2015/16 financial year. An annual increase of 5.8 per cent has been included in the two outer years of the MTREF. As part of The Municipality's cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards. As part of the planning assumptions and interventions all vacancies were originally removed from the budget and a report was compiled relating to the prioritization of critical vacancies within the municipality. The outcome of this exercise was the inclusion of a budget relating to critical and strategically important vacancies

The cost associated with the remuneration of councillors and ward committees is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 86 per cent and the Debt Write-off Policy of the municipality. This amount decrease from 120 million in 2014/15 to R94 million in 2015/16 financial year. While this expenditure is considered to be a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard totals to R75 million for the 2015/16 financial and equates to 12 per cent of the total operating expenditure. There's a 1 per cent increase from 2014/15. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital) and interest on overdraft. Finance charges make up 2 per cent (R14.6 million) of operating expenditure excluding annual redemption for 2015/16 and remain steady for the outer years

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Contracted services has been identified as one of the area which municipality must save to ensure that the municipality has full capacity relating to operations. Clearly this will demonstrate the application of cost effective measures is critical. As part of the process of identifying further cost efficiencies, a business process reengineering project will commence in the 2015/16 financial year to identify alternative practices and procedures, including building in-house capacity for certain activities that are currently being contracted out (egg Meter reading service, Security service, Landfill Management). The outcome of this exercise will be factored into the next budget cycle and it is envisaged that additional cost savings will be implemented.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure are also growing at an alarming rate

1.4.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2015/16 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Table 10 Operational repairs and maintenance

Description	2010/11	2011/12	2012/13	Current Year 2013/14			2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2015/16	Budget Year +2 2016/17
Repairs and Maintenance by Expenditure Item									
Other Expenditure	19,534	17,724	19,434	28,504	28,649	28,649	22,819	23,914	24,930
Total Repairs and Maintenance Expenditure	19,534	17,724	19,434	28,504	28,649	28,649	22,819	23,914	24,930

During the compilation of the 2015/16 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the Municipality's infrastructure and historic deferred maintenance. To this end, repairs and maintenance remained steady at R21 million in the 2013/14 financial year. In relation to the total operating expenditure, repairs and maintenance comprises of 3 per cent

Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. R4 000 was also proposed as a minimum threshold for qualification of this subsidy. The target is to register 6 000 or more indigent households during the 2015/16 financial year, this process is reviewed annually. Details relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained below.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

Description	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
	Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Household service targets									
<u>Water:</u>									
Piped water inside dwelling	28 748	28 748	28 748	28 748	28 748	28 748	28 748	28 748	28 748
Piped water inside yard (but not in dwelling)	-	-	-	-	-	-	-	-	-
Using public tap (at least min.service level)	3 088	3 088	3 088	3 088	3 088	3 088	3 088	3 088	3 088
Other water supply (at least min.service level)	-	-	-	-	-	-	-	-	-
<i>Minimum Service Level and Above sub-total</i>	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836
Using public tap (< min.service level)	-	-	-	-	-	-	-	-	-
Other water supply (< min.service level)	-	-	-	-	-	-	-	-	-
No water supply	-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>	-	-	-	-	-	-	-	-	-
Total number of households	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836
<u>Sanitation/sewerage:</u>									
Flush toilet (connected to sewerage)	26 343	26 382	26 382	27 220	27 220	27 220	27 220	27 220	27 220
Flush toilet (with septic tank)	-	-	-	-	-	-	-	-	-
Chemical toilet	-	-	-	-	-	-	-	-	-
Pit toilet (ventilated)	5 455	5 455	5 455	4 616	4 616	4 616	4 616	4 616	4 616
Other toilet provisions (> min.service level)	-	-	-	-	-	-	-	-	-
<i>Minimum Service Level and Above sub-total</i>	31 797	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836
Bucket toilet	-	-	-	-	-	-	-	-	-
Other toilet provisions (< min.service level)	-	-	-	-	-	-	-	-	-
No toilet provisions	-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>	-	-	-	-	-	-	-	-	-
Total number of households	31 797	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836
<u>Energy:</u>									
Electricity (at least min.service level)	2 945	2 945	2 945	2 945	2 945	2 945	2 945	2 945	2 945
Electricity - prepaid (min.service level)	6 541	28 891	28 891	28 891	28 891	28 891	28 891	28 891	28 891
<i>Minimum Service Level and Above sub-total</i>	9 486	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836
Electricity (< min.service level)	-	-	-	-	-	-	-	-	-
Electricity - prepaid (< min. service level)	-	-	-	-	-	-	-	-	-
Other energy sources	-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>	-	-	-	-	-	-	-	-	-

Total number of households	9 486	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836
<u>Refuse:</u>									
Removed at least once a week	31 414	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836
<i>Minimum Service Level and Above sub-total</i>	31 414	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836
Removed less frequently than once a week	-	-	-	-	-	-	-	-	-
Using communal refuse dump	-	-	-	-	-	-	-	-	-
Using own refuse dump	-	-	-	-	-	-	-	-	-
Other rubbish disposal	-	-	-	-	-	-	-	-	-
No rubbish disposal	-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>	-	-	-	-	-	-	-	-	-
Total number of households	31 414	31 836	31 836	31 836	31 836	31 836	31 836	31 836	31 836
<u>Households receiving Free Basic Service</u>									
Water (6 kilolitres per household per month)	29 918	29 918	29 918	31 836	31 836	31 836	31 836	31 836	31 836
Sanitation (free minimum level service)	5 000	5 000	5 000	7 000	7 000	7 000	7 000	7 000	7 000
Electricity/other energy (50kwh per household per month)	5 000	5 000	5 000	7 000	7 000	7 000	7 000	7 000	7 000
Refuse (removed at least once a week)	5 000	5 000	5 000	7 000	7 000	7 000	7 000	7 000	7 000
<u>Cost of Free Basic Services provided (R'000)</u>	-	-	-	-	-	-	-	-	-
Water (6 kilolitres per household per month)	4 582 910	4 582 910	4 582 910	6 735 337	6 735 337	6 735 337	6 735 337	6 735 337	6 735 337
Sanitation (free sanitation service)	5 934 643	5 934 643	5 934 643	7 657 440	7 657 440	7 657 440	7 657 440	7 657 440	7 657 440
Electricity/other energy (50kwh per household per month)	1 831 680	1 831 680	1 831 680	2 697 022	2 697 022	2 697 022	2 697 022	2 697 022	2 697 022
Refuse (removed once a week)	5 934 643	5 934 643	5 934 643	10 773 840	10 773 840	10 773 840	10 773 840	10 773 840	10 773 840
Total cost of FBS provided (minimum social package)	18 284	18 284	18 284	27 864	27 864	27 864	27 864	27 864	27 864
<u>Highest level of free service provided</u>									
Property rates (R value threshold)	22 000	22 000	22 000	22 000	22 000	22 000	22 000	22 000	22 000
Water (kilolitres per household per month)	6	6	6	6	6	6	6	6	6
Sanitation (kilolitres per household per month)	-	-	-	-	-	-	-	-	-
Sanitation (Rand per household per month)	124	124	124	147	147	147	147	147	147
Electricity (kwh per household per month)	50	50	50	50	50	50	50	50	50
Refuse (average litres per week)	-	-	-	-	-	-	-	-	-
<u>Revenue cost of free services provided (R'000)</u>									
Property rates (R15 000 threshold rebate)	4 873 880	4 873 880	4 873 880	3 351 158	3 351 158	3 351 158	3 351 158	3 351 158	3 351 158
Property rates (other exemptions, reductions and rebates)	-	-	-	-	-	-	-	-	-
Water	4 582 910	4 582 910	4 582 910	6 735 337	6 735 337	6 735 337	6 735 337	6 735 337	6 735 337
Sanitation	-	-	-	-	-	-	-	-	-
Electricity/other energy	-	-	-	-	-	-	-	-	-
Refuse	-	-	-	-	-	-	-	-	-
Municipal Housing - rental rebates	-	-	-	-	-	-	-	-	-
Housing - top structure subsidies	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total revenue cost of free services provided (total social package)	9 457	9 457	9 457	10 086	10 086	10 086	10 086	10 086	10 086

1.5 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Table 11 2015/16 Medium-term capital budget per vote

Vote Description	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Capital expenditure - Vote Multi-year expenditure to be appropriated										
Vote 1 - Municipal Manager	-	-	-	-	-	-	-	-	-	-
Vote 2 - Community Services	-	-	-	-	-	-	-	-	-	-
Vote 3 - Corporate Services	-	-	-	-	-	-	-	-	-	-
Vote 4 - Councillors	-	-	-	-	-	-	-	-	-	-
Vote 5 - Finance	-	-	-	-	-	-	-	-	-	-
Vote 6 - LED	-	-	-	-	-	-	-	-	-	-
Vote 7 - Public Works	44 224	74 049	59 825	80 670	80 670	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]	-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]	-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]	-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]	-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]	-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]	-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]	-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]	-	-	-	-	-	-	-	-	-	-
Capital multi-year expenditure sub-total	44 224	74 049	59 825	80 670	80 670	-	-	-	-	-
Single-year expenditure to be appropriated										
Vote 1 - Municipal Manager	1 773	1 357	1 412	-	-	-	-	-	-	-
Vote 2 - Community Services	-	9 682	12 014	-	-	-	-	-	-	-
Vote 3 - Corporate Services	-	-	-	-	-	-	-	-	-	-
Vote 4 - Councillors	-	-	-	-	-	-	-	-	-	-
Vote 5 - Finance	-	-	-	-	-	-	-	-	-	-
Vote 6 - LED	-	-	-	-	-	-	-	-	-	-
Vote 7 - Public Works	50 978	20 238	10 259	-	-	82 737	82 737	84 352	75 027	77 911
Vote 8 - [NAME OF VOTE 8]	-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]	-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]	-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]	-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]	-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]	-	-	-	-	-	-	-	-	-	-

Vote 14 - [NAME OF VOTE 14]	-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]	-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total	52 751	31 277	23 685	-	-	82 737	82 737	84 352	75 027	77 927
Total Capital Expenditure - Vote	96 976	105 326	83 510	80 670	80 670	82 737	82 737	84 352	75 027	77 927
Capital Expenditure - Standard										
<i>Governance and administration</i>	1 788	1 357	1 412	-	-	-	-	-	-	-
Executive and council	1 018	1 357	1 412	-	-	-	-	-	-	-
Budget and treasury office	756	-	-	-	-	-	-	-	-	-
Corporate services	14	-	-	-	-	-	-	-	-	-
<i>Community and public safety</i>	2 602	9 682	12 014	17 228	17 228	-	-	-	-	-
Community and social services	2 602	-	-	7 500	7 500	-	-	-	-	-
Sport and recreation	-	9 682	12 014	9 728	9 728	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-	-
<i>Economic and environmental services</i>	18 464	9 557	5 809	5 290	5 290	-	-	-	-	-
Planning and development	-	-	-	-	-	-	-	-	-	-
Road transport	18 464	9 557	5 809	5 290	5 290	-	-	-	-	-
Environmental protection	-	-	-	-	-	-	-	-	-	-
<i>Trading services</i>	29 898	10 427	3 409	57 662	57 662	-	-	-	-	-
Electricity	3 708	579	306	893	893	-	-	-	-	-
Water	4 379	8 282	2 864	30 800	30 800	-	-	-	-	-
Waste water management	21 633	1 566	238	25 969	25 969	-	-	-	-	-
Waste management	177	-	-	-	-	-	-	-	-	-
<i>Other</i>	44 224	74 302	60 867	491	491	82 737	82 737	84 352	75 027	77 927
Total Capital Expenditure - Standard	96 976	105 326	83 510	80 670	80 670	82 737	82 737	84 352	75 027	77 927
Funded by:										
National Government	73 454	92 314	67 777	73 170	73 170	75 379	75 379	81 728	75 027	77 927
Provincial Government	-	-	-	-	-	-	-	-	-	-
District Municipality	-	-	-	-	-	-	-	-	-	-
Other transfers and grants	-	-	-	-	-	-	-	-	-	-
Transfers recognised - capital	73 454	92 314	67 777	73 170	73 170	75 379	75 379	81 728	75 027	77 927
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	23 522	13 012	15 733	7 500	7 500	7 358	7 358	2 624	-	-
Total Capital Funding	96 976	105 326	83 510	80 670	80 670	82 737	82 737	84 352	75 027	77 927

For 2015/16 an amount of R82.6 million has been appropriated for the development of infrastructure. In the outer years this amount totals to R 75 million and R 77 million respectively for each financial years.

Part 2 – Supporting Documentation

1.6 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

1.6.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2010) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 25 August 2010. Key dates applicable to the process were:

- **August 2014** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2015/16 MTREF;
- **November 2014** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **January 2015** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;

- **January 2015** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **28 January 2015** - Council considers the 2011/12 Mid-year Review and Adjustments Budget;
- **February 2015** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The draft 2015/16 MTREF is revised accordingly;
- **30 March 2015** - Tabling in Council of the draft 2015/16 IDP and 2015/16 MTREF for public consultation;
- **16 April to 04 May 2015** – Public consultation;
- **May 2015** – finalisation of the 2015/16 IDP and 2015/16 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **29 May 2015** - Tabling of the 2015/16 MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

1.6.2 IDP and Service Delivery and Budget Implementation Plan

This is the fifth review of the IDP as adopted by Council in May 2010. The current process started in September 2010 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2015/16 MTREF in August.

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2015/16 MTREF, based on the approved 2014/15 MTREF, Mid-year Review. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2015/16 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2014/15 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master

planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

1.6.3 Community Consultation

The draft 2015/16 MTREF was tabled before Council on 30 March 2015 for community consultation. The draft budget was published on the municipality's website, and hard copies were made available at customer care offices, municipal notice boards and various libraries within Dihlabeng area. Notifications were sent to all organisations on the municipality's database, including ratepayer associations, community-based organisations and organised business.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Councillors and management will be utilised to facilitate the community consultation process from 16 April to 04 May 2015. The applicable dates and venues were published in all the local newspapers and we are expecting on average attendance of 400 to be recorded per meeting. Other stakeholders involved in the consultation included rates payers association, churches, non-governmental institutions and community-based organisations.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2015/16 MTREF. Feedback and responses to the submissions received are available on request. The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Capital expenditure is not allocated to the areas in the same ratio as the income derived from those areas. This is a normal practice in a collective taxation environment. The municipality is responsible for managing the equitable use of resources to ensure that constitutional imperative to progressively improve basic services in undeveloped areas is realized in a sustainable manner over a reasonable period of time;
- Several complaints were received regarding poor service delivery, especially waste removal backlogs and the state of road infrastructure;
- Poor performance of contractors relating to infrastructure development and maintenance especially in the areas of road construction and maintenance were raised;
- The affordability of tariff increases, especially electricity, was raised on numerous occasions. This concern was also raised by business as an obstacle to economic growth;
- Households cannot afford the tariff increases due to unemployment increases.
- Township establishment in Mashaeng, Mautse, Tateng tse ntsho and Bohlokong.
- During the community consultation process large sections of the community made it clear that they are not in favour of any further tariff increases to fund additional budget requests. They indicated that the municipality must do more to ensure efficiencies and value for money; and
- They also indicated that they need place to stay and they have been waiting for too long and their losing patience.

- Significant changes effected in the final 2015/16 MTREF compared to the draft 2015/16 MTREF that was tabled for community consultation, include:
- The final tariff for water, refuses, sanitation was 7 %
- The draft budget had a zero surplus, and we managed to record R 2.6 million Surplus at the end.
- An amount of R 2.6 million was allocated in the Capital Budget for to fund internal projects,

1.7 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five years strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to The Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and The Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPis);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.
- National Development Plan (NDP)

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2015/16 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 12 IDP Strategic Objectives

2015/16 MTREF	
1.	Provide democratic and accountable government for local communities
2.	Be responsive to the needs of the local community;
3.	Ensure the provision of services to communities in a sustainable manner
4.	Promote a safe and healthy environment
5.	Promote social and economic development
6.	Encourage the involvement of communities and community organizations in the matters of local government
7.	Facilitate the culture of public service and accountability amongst its staff;
8.	Assign clear responsibilities for the management and co-ordination of administrative units and mechanisms

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities.

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the municipality undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon. This process is aimed at influencing the development path by proposing a substantial programme of public-led

investment to restructure current patterns of settlement, activity and access to resources in the municipality so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional dormitory settlements. It provides direction to the municipality's IDP, associated sectoral plans and strategies, and the allocation of resources of the municipality and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

- Developing dormant areas;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole;
- Sound financial fundamentals.

The 2015/16 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

Table 13 MBRR Table SA4 - Reconciliation between the IDP strategic objectives and budgeted revenue

Strategic Objective	Goal	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand										
Corporate Services	Stable labour force	(2 921)	647	378	224	224	408	449	478	509
Corporate governance	Accountable Government	(4 029)	277	1 106	6 394	6 394	1 151	1 297	1 381	1 471
Service delivery	Services to all	78 236	97 631	68 595	97 752	97 752	81 139	88 062	81 773	85 111
	Civil engineering roads	(1)	0	8	–	–	–	–	–	–
	Civil engineering sewerage	35 934	38 080	42 389	44 905	44 905	44 715	47 846	50 956	54 269
	Civil engineering water	44 512	47 280	64 413	64 291	64 291	71 627	76 646	81 628	86 934
	Electrical engineering	134 965	149 441	165 244	176 532	176 532	176 046	198 338	211 230	224 960
Political leadership	Political stability	118 346	129 367	133 234	124 475	124 475	131 452	125 307	125 313	122 032
LED	Economic development	66	17	13	24	24	23	25	27	29
Community wealfare	Healthy environment	36 638	44 314	47 776	42 142	42 142	55 231	57 656	61 403	65 395
Financial management	Financial Accountability	89 267	100 497	107 611	119 428	119 428	120 766	131 039	139 446	148 491

Allocations to other priorities										
Total Revenue (excluding capital transfers and contributions)		531 014	607 552	630 768	676 166	676 166	682 557	726 665	753 636	789 200

Table 14 MBRR Table SA5 - Reconciliation between the IDP strategic objectives and budgeted operating expenditure

Strategic Objective	Goal	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand										
Human Capital Development	Stable labour force	96 379	93 380	23 562	27 019	27 019	25 346	17 987	18 887	19 831
Goog governance and Public Participation	Accountable Government	52 380	54 943	55 484	27 019	27 019	58 592	50 086	52 591	55 220
Service delivery	Services to all	12 332	61 161	37 039	332 810	332 810	151 378	147 809	152 369	160 007
Access to Roads	Improve access to municipal roads and provision of Trafficable roads	24 545	24 544	37 943	27 019	27 019	37 631	34 873	36 617	38 448
Access to Sanitation	Improve access to sanitation and provision of quality services.	97 771	101 438	49 571	27 019	27 019	57 481	35 090	36 844	38 686
Access to Water	Improve access to water servoces and provision of quality water.	12 012	12 652	52 633	27 019	27 019	59 428	44 549	46 777	49 116
Access to Electricity	Improve Access to Electricity Services	95 151	118 255	134 785	27 019	27 019	156 505	194 395	204 115	214 321
Political leadership	Political stability	29 048	49 729	63 174	27 019	27 019	56 297	47 272	49 636	52 117
Local Economic Development	Enabling environment for economic growth and tourism development.	4 961	8 022	11 119	27 019	27 019	7 646	4 595	4 825	5 066
Community wealfare	Healthy environment	48 648	49 657	79 418	27 019	27 019	78 610	63 685	66 869	70 212

Financial management	Financial Accountability	30 183	36 401	93 964	27 019	27 019	7 646	4 595	4 825	5 066
Allocations to other priorities										
Total Expenditure		503 409	610 182	638 693	602 996	602 996	696 558	644 937	674 353	708 091

Table 15 MBRR Table SA7 - Reconciliation between the IDP strategic objectives and budgeted capital expenditure

Strategic Objective R thousand	Goal	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Corporate Services	Stable labour force	-	-	-	-	-	-	-	-	-
Corporate governance	Accountable Government	-	-	-	-	-	-	-	-	-
Service delivery	Services to all	96 976	105 326	83 510	17 719	17 719	82 737	84 352	75 027	77 927
	Civil engineering roads	-	-	-	5 290	5 290	-	-	-	-
	Civil engineering sewerage	-	-	-	25 968	25 968	-	-	-	-
	Civil engineering water	-	-	-	30 800	30 800	-	-	-	-
	Electrical engineering	-	-	-	893	893	-	-	-	-
Political leadership	Political stability	-	-	-	-	-	-	-	-	-
LED	Economic development	-	-	-	-	-	-	-	-	-
Community welfare	Healthy environment	-	-	-	-	-	-	-	-	-
Financial management	Financial Accountability	-	-	-	-	-	-	-	-	-

Allocations to other priorities									
		96 976	105 326	80 670	80 670	82 737	84 352	75 027	77 927

1.8 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, The municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

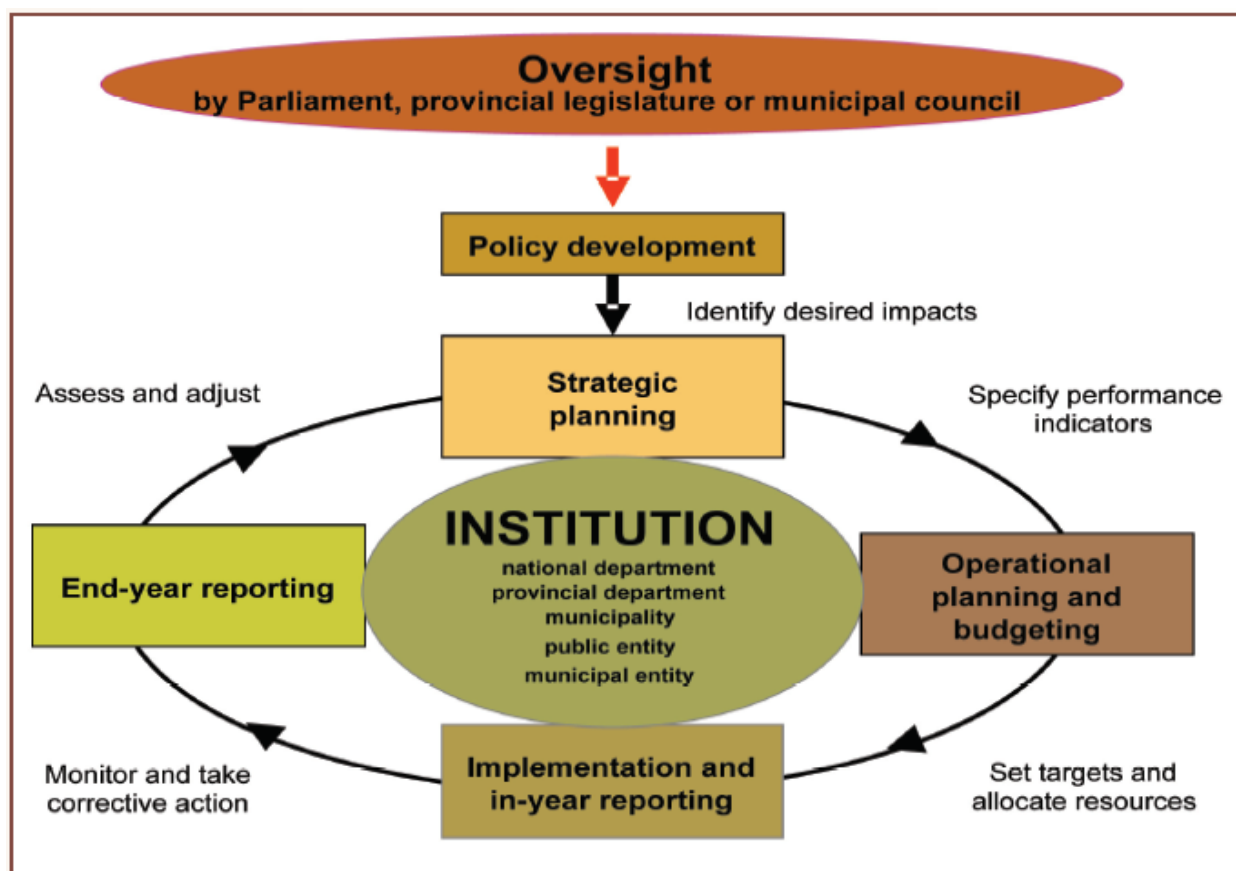


Figure 1 Planning, budgeting and reporting cycle

The performance of the municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the municipality in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:

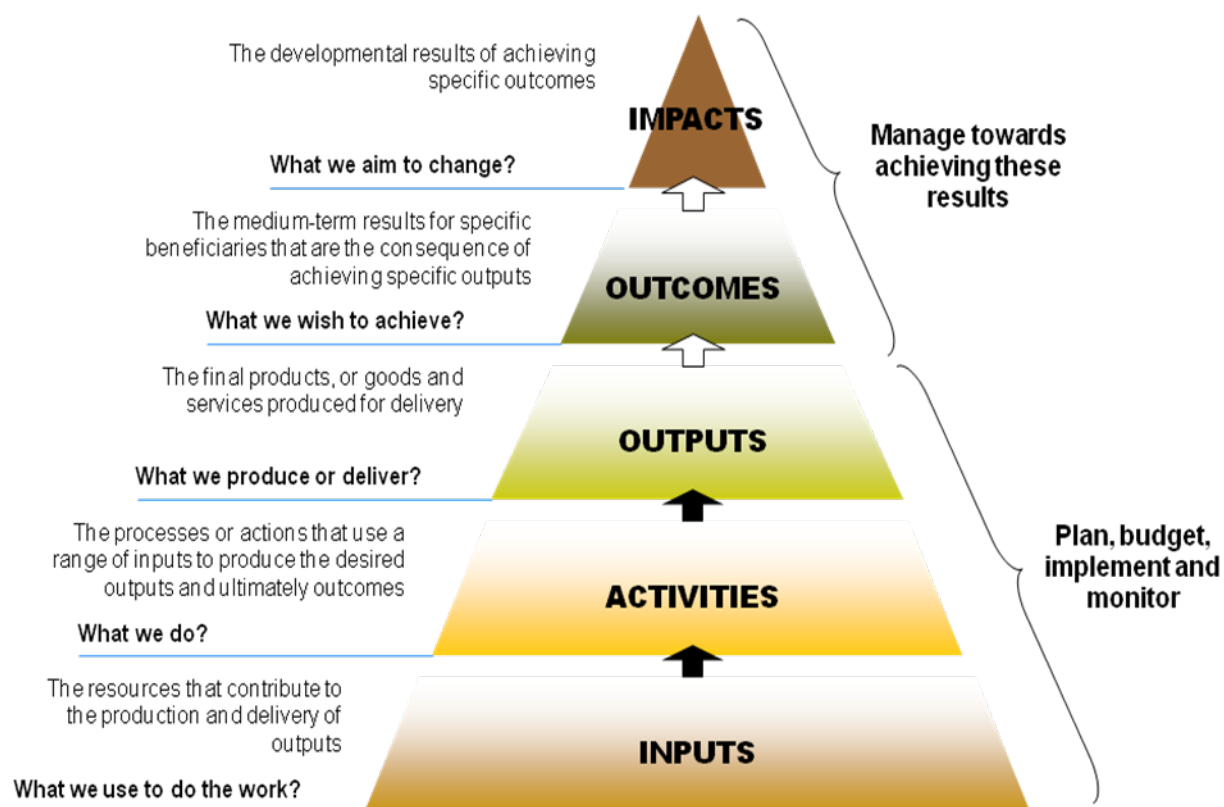


Figure 2 Definition of performance information concepts

1.8.1 Medium-term outlook: operating revenue

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The municipality derives most of its operational revenue from the provision of goods and services such as water, electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, licenses and permits etc.).

The revenue strategy is a function of key components such as:

- Growth in the municipality and economic development;
- Revenue management and enhancement;
- Achievement of a 86 per cent annual collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- And the ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

Investment revenue contributes marginally to the revenue base of the municipality with a budget allocation of R750 000 for the respective three financial years of the 2015/16 MTREF. It needs to be noted that these allocations have been conservatively estimated and as part of the cash backing of reserves and provisions. The actual performance against budget will be carefully monitored. Any variances in this regard will be addressed as part of the mid-year review and adjustments budget.

The tables below provide detail investment information and investment particulars by maturity.

Table 16 MBRR SA15 – Detail Investment Information

Investment type	2009/10	2011/12	2011/12	Current Year 2013/14			2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2015/16	Budget Year +2 2016/17
R thousand									
<u>Parent municipality</u>									
Deposits - Bank	1 040	–	750	750	750	1 254	1 350	1 450	1 550
Total:	1 040	–	750	750	750	1 254	1 350	1 450	1 550

Table 17 MBRR SA16 – Investment particulars by maturity

Investments by Maturity	Period of Investment	Type of Investment	Capital Guarantee (Yes/ No)	Variable or Fixed interest rate	Interest Rate 3.	Commission Paid (Rands)	Commission Recipient	Expiry date of investment	Monetary value	Interest to be realised
Name of institution & investment ID	Yrs./Months								Rand thousand	
arent municipality										
ABSA	10 years	Fixed deposit	No	Fixed	6%	0	0	30 Days' Notice	750	6
TOTAL INVESTMENTS AND INTEREST									750	6

1.9 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting

- Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved.

2. Internship programme

- The municipality is participating in the Municipal Financial Management Internship programme and has employed four interns undergoing training in various divisions of the Financial Services Department. The municipality has successfully employed and trained 14 interns through this programme and a majority of them were appointed by the municipality

3. Budget and Treasury Office

- The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee

- An Audit Committee has been established and is fully functional.

5. Service Delivery and Implementation Plan

- The detail 2015/16 MTREF SDBIP document must be submitted to the Major 21 days after the approval of the budget.

6. Annual Report

- Annual report is compiled in terms of the MFMA and National Treasury requirements.

1.10 Municipal manager's quality certificate

I, municipal manager of Dihlabeng Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name _____

March 2015

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Municipal manager of Dihlabeng Local Municipality

Signature _____

Date _____